

FDIC State Profile

Summer 2005

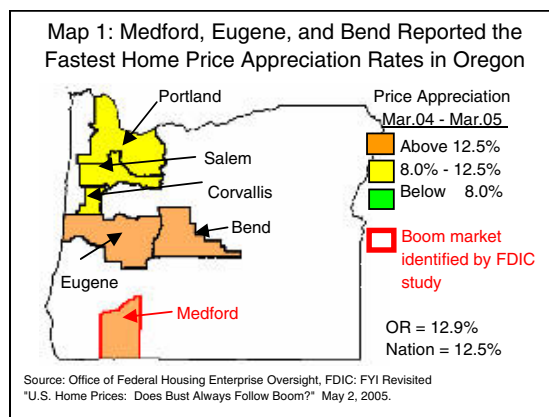
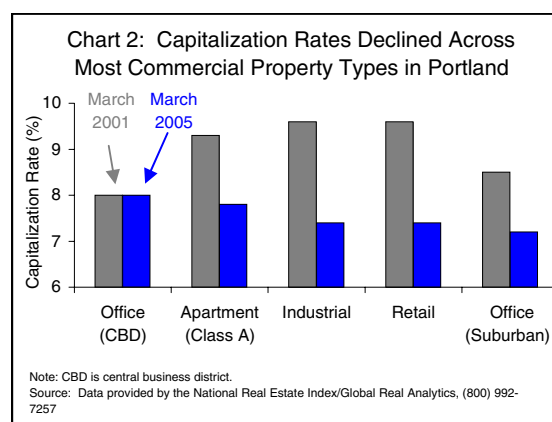
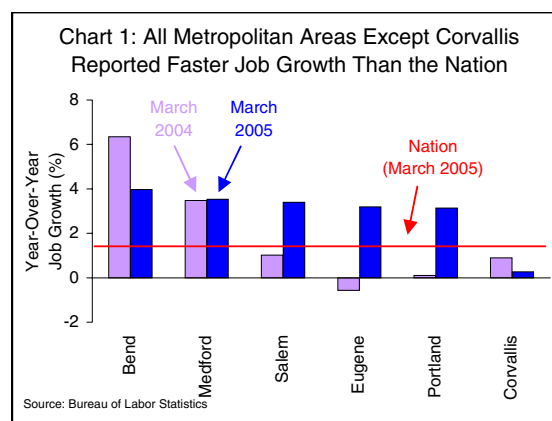
Oregon

Oregon jobs grew at a strong 4.1 percent pace in first quarter 2005, ranking third nationwide.

- Job growth in the state was balanced as every major sector in the state reported year-over-year job gains in the first quarter. The largest contributors to growth were the trade, leisure, manufacturing, and construction sectors. Oregon job growth is expected to peak in 2005 and moderate somewhat in 2006.¹
- While the manufacturing sector reported job gains during the last 12 months as the state economy has recovered and export activity resumed, the sector is still down over 20,000 manufacturing jobs from 2000.
- Job growth was also relatively balanced across the state's major metropolitan areas. Only **Corvallis** had job growth below 3 percent; all other metropolitan areas ranked in the top growth quartile nationwide (See Chart 1).
- The recent Base Realignment and Closure recommendations could result in a net loss of over 1,000 positions in Oregon, primarily as a result of the closure of the **Umatilla** Army Depot and the realignment of the **Portland** International Airport Air Guard Station.

Commercial real estate (CRE) markets are recovering, but exposure remains high at insured institutions.

- The Portland office vacancy rate fell below the national average in first quarter 2005 to 14.6 percent, down significantly from 18.9 percent in first quarter 2004. The industrial vacancy rate also fell to 10.6 percent from 12 percent during the period. Despite improving vacancy rates, rents in each property segment continue to stagnate.
- Capitalization rates declined, consistent with an overall decline in interest rates, over the past few years and have had a positive impact on commercial property values in Portland (See Chart 2). However, any increase in interest rates has the potential to pressure capitalization rates and impact property values prospectively.



¹Forecast is from Economy.com and the Oregon Office of Economic Analysis.

State Profile

- Portland-headquartered institutions ranked 20th out of 225 core-based statistical areas nationwide in terms of CRE exposure.

Home price growth exceeded personal income gains.

- Oregon home prices appreciated almost 13 percent during first quarter 2005, the strongest pace in nearly 15 years.
- A recent study by the FDIC identified 55 “boom” markets nationwide that included **Medford** (See Map 1).² Appreciation in **Eugene**, and **Bend** also outpaced both the state and the national pace.
- The gap between income growth and home price appreciation has widened considerably since the late 1990s and may make it increasingly difficult for home buyers to enter the market (See Chart 3).
- Despite the increased popularity of adjustable-rate mortgages (ARMs) over the past year, Oregon-based institutions held twice as many fixed-rate mortgages as ARMs as of March 31, 2005 (See Chart 4).

Insured institution earnings remained strong.

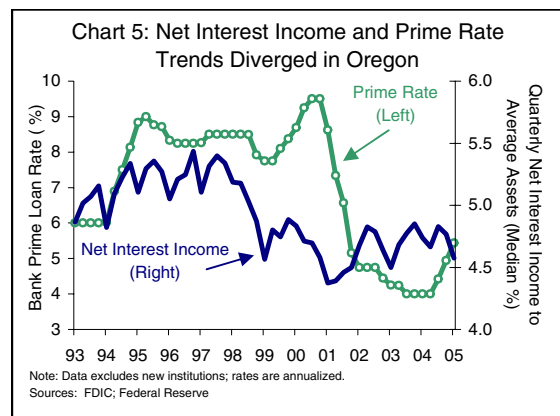
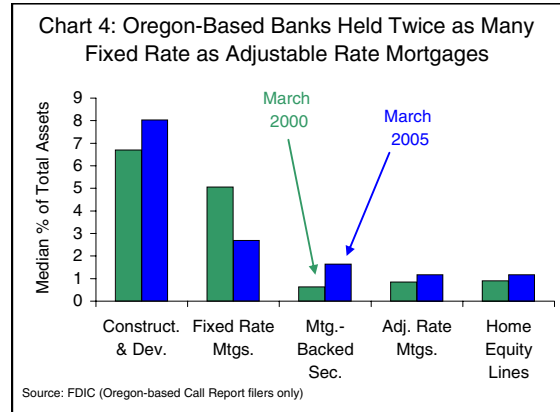
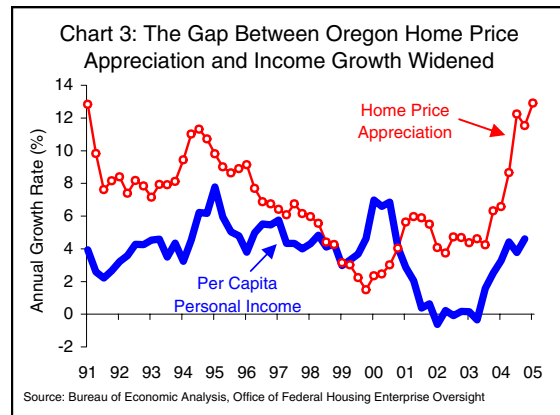
- Earnings performance was strong at Oregon-based institutions; first quarter 2005 return on assets of 1.08 percent compared favorably with the 1.04 percent reported for institutions nationwide.
- Although earnings at the large number of newly chartered institutions continued to depress the overall median earnings at Oregon-based institutions, both established and new institutions reported improved earnings.
- New institutions, which account for one-fifth of the institutions headquartered in Oregon, narrowed their median net loss as of first quarter 2005.
- Lower overhead costs buoyed earnings at established institutions. The median first quarter ROA climbed from 1.28 percent to 1.33 percent.
- Net interest income among Oregon-based institutions contracted in first quarter 2005 despite an increase in the prime rate, possibly reflecting the popularity of short-term, fixed-rate financing for non-residential credit and a high percentage of long-term assets (See Chart 5).

Asset quality improved at most Oregon-based institutions.

- Oregon’s strong job growth, relatively low interest rates, and fast-growing, unseasoned loan portfolios all likely

contributed to improved asset quality, most notably among CRE portfolios. Median past-due loans continued to decline during the 12 months ending March 31, 2005, and ranked the second lowest nationally.

- However, the delinquency ratio may be benefiting from strong loan growth; the median annual CRE loan growth was 23 percent as of March 31, 2005.



²Cynthia Angell and Norman Williams, FDIC FYI Revisited “U.S. Home Prices: Does Bust Always Follow Boom?” May 2, 2005. <http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html>. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

Oregon at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Total Nonfarm (share of trailing four quarter employment in parentheses)	4.1%	0.1%	-0.1%	-2.7%	1.2%
Manufacturing (13%)	4.1%	-1.4%	-2.2%	-9.0%	-0.2%
Other (non-manufacturing) Goods-Producing (6%)	9.8%	2.9%	-1.1%	-6.7%	0.8%
Private Service-Producing (65%)	4.1%	0.5%	0.7%	-2.2%	1.7%
Government (17%)	2.3%	-1.0%	-0.9%	1.9%	1.0%
Unemployment Rate (% of labor force)	6.3	7.7	7.9	7.8	5.4

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Personal Income	N/A	4.4%	1.4%	0.7%	4.1%
Single-Family Home Permits	25.2%	-0.8%	15.1%	-3.7%	15.6%
Multifamily Building Permits	89.3%	-45.4%	58.3%	4.1%	0.4%
Existing Home Sales	17.3%	3.7%	2.4%	1.6%	15.3%
Home Price Index	12.9%	6.6%	4.4%	4.1%	5.6%
Bankruptcy Filings per 1000 people (quarterly level)	1.62	1.55	1.68	1.58	1.48

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Institutions (#)	40	37	37	37	47
Total Assets (in millions)	22,524	20,948	21,169	20,845	19,354
New Institutions (# < 3 years)	8	5	4	4	9
Subchapter S Institutions	2	2	2	1	1

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.44	0.93	0.98	0.93	1.03
ALLL/Total Loans (median %)	1.21	1.19	1.20	1.24	1.15
ALLL/Noncurrent Loans (median multiple)	4.76	2.23	2.96	2.69	2.39
Net Loan Losses / Total Loans (median %)	0.03	0.06	0.05	0.06	0.07

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Tier 1 Leverage (median %)	10.23	10.41	9.80	8.98	9.41
Return on Assets (median %)	1.09	1.21	1.16	1.21	1.16
Pretax Return on Assets (median %)	1.73	1.81	1.77	1.76	1.62
Net Interest Margin (median %)	5.26	5.23	5.23	5.27	5.27
Yield on Earning Assets (median %)	7.63	7.62	7.91	8.17	8.52
Cost of Funding Earning Assets (median %)	2.25	2.28	2.54	2.75	3.19
Provisions to Avg. Assets (median %)	0.23	0.22	0.23	0.21	0.19
Noninterest Income to Avg. Assets (median %)	0.77	0.84	0.92	0.90	0.89
Overhead to Avg. Assets (median %)	3.96	3.83	3.67	3.66	3.63

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Loans to Assets (median %)	76.1	74.2	71.2	72.8	69.8
Noncore Funding to Assets (median %)	16.9	14.7	15.7	17.1	16.9
Long-term Assets to Assets (median %, call filers)	22.0	25.4	24.9	19.2	16.9
Brokered Deposits (number of institutions)	14	13	10	9	9
Brokered Deposits to Assets (median % for those above)	4.3	2.5	3.9	4.8	2.1

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-02
Commercial and Industrial	99.3	96.7	104.0	110.5	115.2
Commercial Real Estate	442.3	412.8	386.1	367.7	292.2
Construction & Development	78.3	81.2	84.3	76.1	72.0
Multifamily Residential Real Estate	21.7	19.7	19.2	21.5	12.4
Nonresidential Real Estate	255.5	221.8	242.0	217.3	195.2
Residential Real Estate	65.1	70.7	81.7	84.4	98.5
Consumer	15.5	20.5	29.2	36.7	34.3
Agriculture	11.1	11.2	11.3	10.1	6.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Portland-Vancouver-Beaverton, OR-WA	36	22,964	< \$250 million	26 (65%)
Salem, OR	18	3,269	\$250 million to \$1 billion	10 (25%)
Eugene-Springfield, OR	16	3,068	\$1 billion to \$10 billion	4 (10%)
Medford, OR	13	2,219	> \$10 billion	0 (0%)
Bend, OR	13	1,692		